

HOUSE No. 1524

By Mrs. Paulsen of Belmont, petition of Anne M. Paulsen and others relative to the appointment of a special commission (including members of the General Court) to make an investigation and study of the motor vehicle insurance rating system and the competition within said system. Financial Services.

The Commonwealth of Massachusetts

PETITION OF:

| | |
|-----------------|---------------------|
| Anne M. Paulsen | Michael E. Festa |
| John Hayes | Alice Hanlon Peisch |
| Benjamin Swan | Stephen Kulik |
| Kay Khan | Gloria L. Fox |

In the Year Two Thousand and Five.

AN ACT TO ESTABLISH A SPECIAL COMMISSION TO RESEARCH THE BENEFITS OF COMPETITION FOR OUR CURRENT AUTOMOBILE INSURANCE RATING SYSTEM, AND METHODS OF INCORPORATING SUCH BENEFITS.

Be it enacted by the Senate and House of Representatives in General Court assembled, and by the authority of the same, as follows:

- 1 SECTION 1. It is hereby found and declared:
- 2 That there is a need to research the extent to which some form
- 3 of competition could offer a more consumer-beneficent system of
- 4 pricing automobile insurance, especially in the higher-rated terri-
- 5 tories.
- 6 It is therefore the purpose of this act to establish a genuinely
- 7 consumer-weighted research commission:
- 8 (a) to conduct in-depth research into the feasibility and benefits
- 9 of a competitive pricing system;
- 10 (b) to develop, in close conjunction with the Joint Insurance
- 11 Committee, specific approaches to implement the results of this
- 12 research; and
- 13 (c) to file proposed legislation to present to the Joint Insurance
- 14 Committee.

1 SECTION 2. Establishment of a special research commission.

2 There shall be established a special research commission, here-
3 inafter referred to as the commission, to accomplish the purposes
4 described in Sections 2 and 3 below, consisting of:

5 1) The conduct of in-depth research into the issues of competi-
6 tion, including the effects of the activities of Commonwealth
7 Automobile Reinsurers (“CAR”);

8 2) The development of specific concepts of these issues, in
9 close conjunction with the Joint Insurance Committee; and

10 3) The filing of proposed legislation to present to the Joint
11 Insurance Committee.

12 The commission shall be authorized to contract with recognized
13 established actuarial organizations to develop actuarial analyses as
14 needed.

15 Said commission shall consist of seven members, all of them to
16 be Massachusetts citizens, as follows:

17 Three (3) genuine consumers with comprehensive awareness of
18 Massachusetts automobile insurance issues, with demonstrated
19 commitment to the public good, and with no affiliations with
20 either the insurance industry or the trial bar, the method of their
21 selection to be determined by the Joint Insurance Committee;

22 One (1) person to be appointed by the House of Representatives
23 Co-Chair of the Joint Insurance Committee;

24 One (1) person to be appointed by the Senate Co-Chair of the
25 Joint Insurance Committee;

26 One (1) person to be appointed by the Attorney-General of
27 Massachusetts;

28 One (1) person to be appointed by the Secretary of the Office of
29 Consumer Affairs.

30 Section 2A of Chapter 4 of the General Laws, which deals with
31 the rules of conduct of special legislative commissions, shall not
32 be applicable to this commission.

33 Five members of the commission shall constitute a quorum,
34 and, providing that a quorum is present, a majority of those mem-
35 bers present shall be required for any action voted by said com-
36 mission, including but not limited to voting on formal
37 recommendations and/or proposed legislation. The chair of the
38 commission shall be selected by a majority vote of all the mem-
39 bers thereof.

40 Said commission shall report to the Joint Insurance Committee
41 on a monthly basis as to its progress on the above issues.

42 Said commission shall develop specific legislation incorpo-
43 rating its findings, together with any necessary supporting discus-
44 sions and/or documentation, to present to the Joint Insurance
45 Committee six months from the date of the enactment of this act,
46 in order that it may be considered by that Committee and pre-
47 sented to the General Court for consideration of implementation
48 during the 2003-2004 legislative session.

49 The commission shall be dissolved at the discretion of the Joint
50 Insurance Committee following the completion of its duties.

1 SECTION 3. Areas of concern for the commission.

2 The commission shall concentrate upon, but not necessarily
3 limit its review, analysis, and consideration to, the issue of compe-
4 tition, especially as it applies to affordability of insurance by less-
5 affluent insureds in high-rated territories. As part of its review,
6 analysis, and consideration of this issue, the commission shall
7 take up the following concerns:

8 (a) The extent to which the recent proliferation of group insur-
9 ance plans indicates a readiness and need for competition.

10 (b) The extent to which competition can offer significant bene-
11 fits in terms of:

12 (1) Lower overall prices;

13 (2) Devising innovative plans such as so-called "Good Student"
14 discounts;

15 (3) Other incentives for safe driving; and

16 (4) Whether competitive safe-driver plans could avoid the prob-
17 lems of the state's current Safe Driver Incentive Plan, including
18 but not limited to:

19 (A) the six-year experience period, so-called;

20 (B) the minor at-fault accident threshold, so-called;

21 (C) the clean slate rule, so-called; and

22 (D) antiquated traffic law violations.

23 (c) Merit rating plans:

24 (1) Whether such plans would be developed by the industry in
25 response to competitive pressures;

26 (2) The effects of such plans on the behavior of Massachusetts
27 motorists;

- 28 (3) The effects of such plans on premiums.
- 29 (d) The type of automobile insurance rate regulation most bene-
30 ficial to Massachusetts motorists, such as prior approval, flex
31 rating, “deemed-approved”, file-and-use, use-and-file, other.
- 32 (e) The experience of other states as to their types of rate regu-
33 lation.
- 34 (f) The current rate cross-subsidization:
- 35 (1) The effects of its absence in the 1977 attempt at competi-
36 tion.
- 37 (2) How to avoid the problems of 1977.
- 38 (g) The difference of the effects of a competitive market upon
39 insureds in different parts of the state.
- 40 (h) Effects upon insurance industry:
- 41 (1) Upon automobile insurance companies:
- 42 (A) Effect upon those companies currently doing business in
43 Massachusetts;
- 44 (B) Whether new companies would be formed within the
45 Massachusetts market.
- 46 (C) Whether out-of-state companies would be attracted to
47 Massachusetts.
- 48 (2) Upon insurance agents and brokers:
- 49 (A) Effect upon agents’ commissions.
- 50 (B) Whether current agents would be sought by new compa-
51 nies.
- 52 (i) Evaluation of plans to combine the benefits of competition
53 with the benefits of the current cross-subsidization of urban
54 insureds, including the following approach:
- 55 (1) A cross-subsidization fund, with the following provisions:
- 56 (A) Allowing competition to set prices.
- 57 (B) Surcharging of all insureds in lower-rated territories in
58 amounts comparable to their current contribution to the current
59 cross-subsidization, into a cross-subsidization fund;
- 60 (C) Provision of subsidies for insureds in high-rated territories
61 from said fund.
- 62 (j) How rating territories are to be determined:
- 63 (1) By the state’s Division of Insurance as at present;
- 64 (2) By the industry, including allowing individual companies to
65 utilize differing sets of territories;
- 66 (3) Any combination(s) of the above; and,

67 (4) The accuracy and fairness of both the state's current terri-
68 tory rating system and any competitive territory rating system.

69 (k) Implementation of competition.

70 (1) Whether best accomplished quickly or gradually.

71 (2) What methods to use.

72 (1) Commonwealth Automobile Reinsurer rules:

73 (1) Extent of their inhibition of competition.

74 (2) To what extent the penalty for withdrawing from Massachu-
75 setts business is a deterrent to out-of-state companies.

76 (3) Whether there is a better way to handle the involuntary
77 market.

1 SECTION 4. Funding of the commission.

2 The commission and its activities shall be funded by a sur-
3 charge of twenty-five cents (\$0.25) on each bodily injury automo-
4 bile insurance policy purchased or renewed during the one-year
5 period starting with the date of the enactment of this act.

1 SECTION 5. This act shall take effect upon its passage.